Hon. Bordeau

ROYAL COMMISSION ON ENERGY

Submission of

Honourable E. C. Manning
Premier of Alberta

Concerning

CRUDE OIL

CALGARY, ALBERTA

MAY 16, 1958

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Mr. Chairman and Commissioners:

I appreciate this opportunity to appear before you and to outline the views of the Government of Alberta concerning Canada's oil industry. You have heard from many sources about the present serious unbalance between the productive capability of the industry in Western Canada and the markets available to it. I do not intend to review the details of this situation, as I believe the fact of its existence and its seriousness is agreed to by all. This problem is of particular importance to the Province of Alberta.

As a government we have been concerned over the deteriorating market conditions since mid-1957. In November of that year I advised the Prime Minister of the problem and since that time I have tried to keep him posted on new developments. As recently as April 12th of this year I reviewed the situation with him and made certain specific proposals. I have followed with great interest the general tenor of the testimony presented to your Commission and I have found that much of it confirms my previous understanding, and all of it emphasizes the seriousness of the difficulties which have developed.

The causes of this marketing problem have been fully treated in several of the briefs presented to you. Some of these causes are of a temporary nature and they will probably be corrected during the next few months. Others, however, are of a more serious and long term character and consequently require strong efforts by both industry and government for

correction. Among the temporary causes are -

1. the economic recession with its concurrent reduction in demand for petroleum products.
2. the warm winter which reduced the demand for heating fuels.
3. excessive inventories arising out of the above two factors and also from events associated with the Suez crisis.

Among the more important and long term causes of the problem are -

1. The system of voluntary import quotas instituted by the United States.

   These quotas have had an adverse effect on the markets for Canadian oil since they are less than the volumes imported during the first half of 1957 by those refiners using Canadian crude. In addition the quota system has had an indirect effect since the displacement of foreign crude has led to much more severe competition for the remaining markets. This has meant that Canadian producers have experienced difficulty in retaining markets which previously seemed secure.

   The quota system also is responsible for casting serious doubt on the long term future role of these United States export markets as major outlets for Canadian crude oil.

2. The pressure from Middle East and Venezuelan crude oil.

   The cost of producing crude oil in these areas is low in comparison to costs in Canada and the United States. Except in the Puget Sound area this pressure has not seriously effected existing markets. However, it has been responsible for restricting the area in which Canadian production can find new market outlets.

3. The low tanker rates prevailing because of both the availability of surplus capacity and the development of new super tankers.

4. The continued discovery of crude oil reserves in Western Canada has increased productive capability. On the other hand, during the last few years there has been little accomplished in acquiring new market areas for Canadian production.

   Producers in this province have not sold large volumes in any new market since 1954, other than those special sales which occurred during the Suez crisis.

I understand that industry in general agrees that these causes are primarily responsible for the present situation. I also understand that there is general agreement as to the seriousness of this problem. However, there is a difference of opinion as to whether or not these difficulties are of a transitory or permanent nature. The independent company depending primarily on production revenue is well aware that the present low production rates represent a serious loss of revenue. On the other hand, an integrated company operating in all phases of the industry and through affiliated companies having reserves in various parts of the world is not as seriously effected by regional marketing problems. Such a company can afford to take a much longer term view and therefore an immediate solution is not as vital to the

company's operations. It should be emphasized that the Canadian independents can be very seriously hurt if today's marketing difficulties continue even for a relatively short time.

The Government of Alberta takes a serious view of this whole situation. We agree that some of the causes are temporary and that when they are corrected there will be a small improvement. Without strong and definite action to correct the long term causes, however, we can foresee only a very serious damage to our provincial and national economy and welfare. Specifically we anticipate -

1. danger to the stability and development of the oil industry, especially among the Canadian companies having limited activities.

2. danger to the stability and development of the many industries related to and serving the oil industry.

   These include important industries in all parts of Canada. The effect on employment in Canada is involved in both the above points.

3. a serious loss in revenue at all government levels from municipal through provincial to federal.

   This is particularly true of the municipal and federal governments whose tax revenue is dependent on the general level of business activity rather than royalties from production.

4. a continuing adverse effect on Canada's trade balance with United States arising from the loss of some of our export markets.

On the other side of the ledger crude oil imports into Canada in 1956 represented $271,000,000 or approximately 37% of the total unfavorable balance of merchandise trade.

5. a serious danger to Canada's national security resulting from a lessening of activity in the oil industry.

I agree with those spokesmen of industry who have said that only an all out effort by both industry and government at all levels can achieve a complete solution. Broadly speaking this solution must be considered in terms of -

1. expansion in the Canadian markets of
   (a) Ontario, and
   (b) Quebec
2. expansion in the following export markets of the United States:
   (a) The Pacific north-west region.
   (b) The North Central region including the states of Minnesota, Michigan, Wisconsin and possibly other neighbouring states.

This expansion constitutes an integral part of the philosophy of continental defense and the inter-relationship of Canadian and United States crude oil reserves.

Several companies have proposed the expansion of the Ontario market and some have suggested that every effort should be made to recapture and expand the markets in the Pacific North-west and the North Central areas of the United States. These

companies all seem convinced that something can be accomplished in the Ontario market but they differ in their assessment of the degree of success and in the expansion possibilities in the two export areas. Analyses made for me by the staff of the Oil and Gas Conservation Board indicate that the expansion in the Ontario market and the re-establishment of export at its former level in the two United States markets (with reasonable growth provision) would bring about a market growth insufficient for an effective solution to the problem. I believe that these three market areas would assure producers in Manitoba and Saskatchewan a continued outlet for their crude oil due to their geographical locations, but the improvement in Alberta would fall far short of what is necessary to meet the situation. I have been advised that with these markets, Alberta producers could look forward to marketing in 1960 only approximately 49% of the oil which could be produced under good engineering practice. I, therefore, conclude that not only from the viewpoint of Alberta but from the consideration of Canada as a whole, these proposals do not go far enough, and expansion of our market either into Quebec or further into the United States or both, is a necessity.

I have given considerable thought to the steps which might be taken, both by government and industry, to assure

the acquisition of these necessary new markets.

Having regard to all the factors involved I would urge that your Commission, at the earliest possible date, advise the Prime Minister and the Cabinet of the serious marketing problem confronting Canada's oil industry and recommend immediate action along the following lines:

1. That the Prime Minister convene a meeting with the senior officials of the refining importing, transporting and marketing companies involved in order to -

   (a) advise them of the urgent need for increased use of Canadian crude oil and for the reduction of imports of crude oil and also for the freezing of refined product imports to present levels.

   (b) request industry to take all necessary action to accomplish these objectives and also to advise industry that certain specific objectives must be fulfilled in accordance with an established time schedule.

   (c) advise industry that failing a satisfactory solution to this problem within the prescribed time, it is the intention of the Government of Canada to impose import quotas on crude oil and refined products to the extent necessary to make economically

feasible the construction and operation of a pipe line to transport Canadian crude oil from Western Canada to the Montreal refining area.

Some of the testimony given at this hearing has referred to another means of acquiring additional markets. This relates to the possibility of companies, particularly those having operations throughout Canada and the United States, arranging for the inter-change of crude oil between Canadian and United States refineries. This possibility should be explored at the meeting between government and industry called for in this proposal, but it should be made clear that any markets acquired by such an inter-change would have to represent additions which would not otherwise have accrued to Canadian producers.

2. That the Prime Minister request an appropriate government agency to proceed immediately to make a thorough analysis of the best ways and means of instituting import quotas on crude oil and refined products into Canada.

3. That the Prime Minister re-open and continue high level discussions with the United States government with the view of re-establishing and expanding the markets for Canadian produced crude oil in the Pacific North-west and North Central areas of the United States.

Talks with regard to this problem already have taken place but unfortunately little has been accomplished. I still believe that such negotiations eventually can be successful providing a stronger approach is taken by the Canadian representatives and providing the discussions are conducted at cabinet level. However, we must not anticipate any major adjustments in the next few years.

The Canadian approach to this discussion should emphasize the inter-relationship of all crude oil reserves on this continent, particularly in terms of defense considerations.

4. That the Prime Minister designate a member of his Cabinet to keep in close touch with the industry, the provincial governments and the United States government to insure "follow through" and the most rapid progress possible.

I have purposely refrained from discussing many of the details of the over-all problem considered in this brief, believing that the Commission is interested primarily in the broad principles. I would, however, like to make further reference to the proposal for a pipe line to Montreal. You have heard a good deal of testimony concerning the costs and estimated tariffs for a completely new pipe line, and the costs and estimated tariffs for looping and expanding the system of the present Interprovincial Pipe Line. I believe it is generally agreed that only under a system of either voluntary long term contracts or enforced quotas could Western Canadian crude oil displace foreign produced oil in the Quebec market. The most economic way of transporting crude oil to Montreal clearly is dependent upon the initial volume and the anticipated future volumes to be moved. This in turn depends directly upon the amount of the voluntary contracts or enforced import quotas and on any reduction or growth in the area served by the Montreal refineries. Moreover, the

actual tariffs to be charged by any pipe line will be effected by the manner in which it is financed and by whether or not there will be federal regulation of interprovincial pipe line tariffs. In discussions with the Prime Minister I have previously indicated that the Government of Alberta favors a separate pipe line to Montreal provided the tariff charged would make Alberta crude oil competitive in that market area. We would not be opposed to the looping and extension of an existing line, provided it gave the same result. We have no preference for any individual project other than to emphasize the importance of taking advantage of the economies available through a large diameter pipeline designed specifically to transport Western Canadian crude oil to the Montreal area at the lowest possible cost.

Preliminary studies made by the staff of the Oil and Gas Conservation Board of one project already submitted to your Commission indicates that it is economically feasible to deliver Western Canadian crude to the Montreal refining area at prices roughly the same as those now being paid in that area for imported crude oil, provided that the volumes permitted under voluntary contracts or an enforced import quota system are sufficient. This approximate equivalence in price in Montreal is the important thing and I do not believe that too much consideration should be given now to the details of calculating the exact price of various crude oil supplies or the cost of alternate transportation methods. The use of Canadian crude in Montreal under these circumstances should not necessitate any increase in price to the

consumers in Eastern Canada.

The crux of the situation, it seems to me, is the establishment of necessary restrictions on the importation of crude oil and refined products in the interests of the revitalization and preservation of our oil industry and our national economy. I hope that this can be done voluntarily by industry. In view of the representations made before you by some of the integrated oil companies I believe industry should be given an opportunity to solve the problem. If industry cannot produce a solution that can be applied speedily or if its solution falls short of being adequate the government of Canada must be prepared to take a firm stand. On this basis I see no valid objection or reasonable alternative to a system of enforced import quotas on both crude oil and refined products.

In the interests of its national economy and its national security the United States Government decided to restrict imports by voluntary controls to ensure that the domestic industry would be able to keep exploration and development at a level which would provide adequate supplies for the future. It is significant to note that this action was taken at a time when the United States was producing at 74% of the total productive capacity. This can be compared to the Canadian situation during 1957 when production was restricted to an average of 55% and in December was equal to 45% of productive capacity. In Alberta the situation was even worse in that our comparable rates were 51% and 38% of permissible

production. Under these circumstances, which are not going to improve without effective action on the part of industry and government, the importance and urgency of remedial action requires no further elaboration.